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COMMODITY EXPORT POLICIES AND STRATEGIES IN AFRICAN COUNTRIES IN A PROCESS OF STRUCTURAL ADJUSTMENT: COTTON, TEA AND HORTICULTURAL PRODUCTS

Report on a Workshop held in Dar-es-Salaam, United Republic of Tanzania, from 24 to 27 November 1993 under project TX-RAF/92/A34

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FOREWORD

1. This report on the Workshop on Commodity Export Policies and Strategies in African Countries in a Process of Structural Adjustment, held in Dar-es-Salaam, United Republic of Tanzania in November 1993[1], is intended to illustrate the impact of changes in government policies undertaken under structural adjustment on commodity exports through analysing the experience of the cotton, tea and horticultural sectors in selected Southern and Eastern African countries. It is based on papers presented at the Workshop by participants from the countries present, UNCTAD, the Government of Israel, COLEACP[2] and International Trade Centre UNCTAD/GATT.

2. Section A of chapter I explains the aims and conduct of the Workshop while Section B presents the policies identified by the participants as needed for creating a suitable macro- and micro-economic environment for the successful development of these three commodity sectors. Section C provides a brief description of the structural adjustment programmes undertaken in each participating country. Chapters II, III and IV contain sector-specific material based on the presentations of country experiences.

Chapter I

THE RATIONALE FOR, AND RESULTS OF, AN EXCHANGE-OF-EXPERIENCE WORKSHOP ON COMMODITY EXPORT POLICIES AND STRATEGIES

A. The rationale for exchange of experience

3. The withdrawal of the government from many areas of economic activity has, inter alia, led to an increase in the number of economic agents involved in production and export marketing of commodities as well as a liberalization of marketing and price formation so that prices now often better reflect world market conditions. In many instances, however, a sudden reduction in State participation in agricultural production and marketing has meant that essential support services such as quality control, credit and extension services providing inputs and machinery are no longer available to local producers. These two developments have had opposing effects on incentives to produce and export commodities. Concomitantly, as the world trading environment is becoming increasingly competitive for practically all commodities and production and marketing technologies are changing rapidly, to remain competitive, many developing countries need to improve and modernize their methods of production and marketing.

4. The aim of the Workshop was to assist selected Eastern and Southern African countries in their ongoing restructuring of policies affecting the production and export marketing of the three selected commodities, cotton, tea and horticultural products. At present, many countries lack expertise in the

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[1] The workshop was executed under project TX-RAF/92/A34 with financial support from the government of Australia, and in cooperation with the International Trade Center-UNCTAD/GATT. The government of Israel and COLEACP provided resource persons.

[2] Committee for Liaison between Europe and the African, Caribbean and Pacific countries signatory to the Lomé Conventions for the promotion of tropical and off-season horticultural exports.

implementation of these new, more liberalized policies. Many different systems of production and marketing of commodity exports exist, and there are few, if any, studies that critically analyse their benefits and disadvantages for individual commodities. The Workshop was thus designed to create an environment in which government officials could learn from each other's experiences in attempting to devise and implement policies. This meant bringing together officials from a group of countries who had faced similar problems in trying to liberalize their commodity sectors. However, it was also important that the country-mix was such that it included countries that had advanced further in the process of liberalization. It was equally important to bring together the right mix of participants from the government and private sectors, i.e. individuals who influence government policies as well as producers and exporters who were directly affected by liberalization programmes.

5. It was encouraging to note the enthusiasm of the country participants in presenting their papers summarizing the experiences, successes and difficulties, of their commodity sectors under liberalization programmes. Their eagerness showed the value they placed on this kind of a workshop as a way to assist them in finding solutions to their liberalization problems, though they were well aware that there is no one magic formula. Each presentation gave rise to frank discussions and comparisons of country experiences. It was clear from these discussions that the policy makers present at the workshop were facing similar problems in implementing their liberalization programmes and were looking for ways and means to overcome these obstacles. Producers and exporters highlighted the difficulties they faced in the absence of significant government support during liberalization programmes. For example, one representative said that while liberalization measures in the tea sector had improved the potential for private sector exporters, growth of the sector has been hampered by poor infrastructure (erratic electricity power), lack of research, shortage of credit to undertake essential rehabilitation programmes, and a lack of an effective government body to provide extension services.[1]

6. While many participants stressed both macro and micro-economic obstacles to the further development of their commodity sectors, most recognised that their government had taken or was in a process of taking measures to alleviate some of these problems. However, it was noted that the implementation of measures has been erratic or, at best, slow and clearly needed a fresh, more systematic approach.

7. The participants generally felt that structural adjustment programmes, encompassing liberalization of commodity-related economic activities, were beneficial and had the potential to improve production and exports in many sectors of their economies. However, implementing a liberalization programme without having a good idea of how the new system would function was viewed as ineffective. It was important to develop a system under liberalization that encourages private sector development and participation in new marketing and production systems. It was clear that for the private sector to develop, it needed considerable support to overcome many obstacles including the lack of a well-defined legal system for property ownership and access to credit,

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[1] Another participant reported that the his country's cotton sector faced similar problems. He noted that the privatization of former state-owned ginneries was proceeding at a slow pace, partly owing to the lack of credit available to potential local private investors.

information and marketing know-how. The need for support was often felt strongest at the farm level where frequently there is no clear link to marketing systems. The fundamental problem is trying to determine the optimal balance between government and private sector participation in providing this support; i.e, who should provide the different services for the maintenance and development of infrastructure, or credits and finance for investment projects, especially given the cuts in government expenditure. It is difficult to give a concrete measure to the level of support that should be provided by the government. However, it was noted that in countries where development of the cotton, tea or horticultural sectors had been successful under a liberalized structure, there was some sort of agreed partnership between the government and the private sector.

8. The contributions to the Workshop by the resource persons from the COLEACP, Israel and ITC assisted considerably in illuminating possible solutions to some of the problems experienced in the participating countries. The COLEACP representative illustrated the importance of strong exporter associations, market information, and product identification that were essential for horticultural exporters to succeed in the European market. The Israeli resource persons highlighted the Israeli experience in the production and export marketing of cotton and horticultural products. Though their structure of production and marketing is unique, the example showed the importance, in developing and maintaining competitive commodity sectors, of well-developed support systems in areas such as research and development, quality control and market information. The representative from ITC demonstrated the importance of post harvest handling and packaging techniques for horticultural products. The low level of quality and packaging standards for most horticultural exports from Africa has meant that their exports are uncompetitive and unable to meet the stringent quality standards required for the EU and North American markets.

9. During general discussions, many participants noted that a government has a crucial role to play in establishing rules and regulations concerning foreign exchange, land ownership, taxes, certification and inspection, business ethics code (credible in international markets), investment regimes, credit polices, promotion of competition and basic agricultural research. In each of these areas, it was stressed that government efforts should be aimed at facilitating private sector growth rather than creating bureaucratic barriers. It was also felt that private producers and exporters should work in partnership with the government in areas such as research and development, maintenance and development of physical infrastructure, extension services, market promotion and information and training activities. The division of activities was something that needed to be clearly defined by the two groups. Participants also emphasised that producers/exporters should be responsible for the organization and financing of any activities promoting export growth, such as production and marketing systems, production methods and packaging and technologies.

10. Many of the participants noted that exchanging experience on more than one commodity was very useful, especially when the commodities were faced with similar development problems. For example, the horticultural and cotton sectors in Tanzania, Ethiopia and Uganda benefited considerably from the examples presented by the Kenyan participant on the success of the horticultural sector in that country. Most of the factors contributing to its success, including the exporters associations and their close partnership with corresponding government institutions, could be relevant in other commodity sectors in other countries.

11. The following section reproduces the recommendations drawn up by the participants in the workshop in response to their need for policy direction. They try to bring the major elements discussed during the workshop into a logical framework within which the responsibilities of various actors in an economy are identified. These suggestions were also seen as flexible enough to apply to all of the countries present.

B. Recommendations on guidelines for commodity export policies and strategies: cotton, tea and horticultural products

12. Governments of African countries producing the three commodities (tea, cotton and horticultural products) for export should have a clearly defined policy for each sector which sets out the objectives agreed for the sector. These policies should aim at removing disincentives and at increasing incentives for efficient producers and exporters. They then should, in light of their general economic situation and financial resources, set out priorities and modalities for achieving these objectives.

13. The export-related policies and strategies in African countries for these three commodity sectors will, of course, vary among countries depending on the size and structure of production in a sector. However, there is a fundamental division of responsibilities between the government and the producers/exporters which is outlined below. In this regard, governments should facilitate actions by the sector participants to meet their responsibilities outlined in section 2 and should help develop those under section 3 in conjunction with commodity producers/exporters and at their instigation. It should consult the sector on problems created by policies under section 1 which impinge on the proper functioning of the sector's activities.

1. Government responsibilities

14. A government has the overall responsibility for the political climate in a country. Political stability is a prerequisite for creating an environment within which other policies can have the effects intended. The government is also responsible for the legal and economic framework, including:

(a) Foreign exchange regime: While it was recognized that schemes such as retention accounts, tradeable retention rights, or foreign exchange auctions have been beneficial to commodity exporters, complete convertibility was preferable.

(b) Physical infrastructure: Governments have a principal role to play in the development, rehabilitation and maintenance of basic physical infrastructural facilities. This includes transport infrastructure (roads, airports and ports), water and electricity supplies and telecommunications.

(c) Legal framework

(i) Laws on land ownership: It was stressed that the right of private individuals to acquire land and have a secure right of tenure was fundamental. Therefore clear, defined laws supporting these rights should exist in every country before a government can expect an agricultural-based sector to develop.

(ii) Tax laws: This is a need to reform the tax structures in order to achieve a better balance between the government's need for revenue and the existing heavy reliance on the trade sector to generate this revenue, as

illustrated by the tendency to place and increase taxes on jet fuel, use of port facilities, etc., thus significantly increasing the costs of export products.

(iii) Business ethics code: While recognizing the need to monitor the private sector, it was felt that licensing and registration procedures should facilitate, rather than unnecessarily complicate, the operations of this sector. Whereas such procedures needed reform and simplification, it was also necessary to develop and implement a code of business standards in order to be able to sanction unethical business behaviour.

(iv) Certification and inspection laws: The Bureau of Standards in each country should be strengthened and empowered to enforce at least minimum standards of quality for commodity exports as well as for their packaging. These Bureaux should have adequate testing facilities for products and packaging materials.

(d) Investment regime: An investment climate conducive to both domestic and foreign investors is necessary. A very important element is protection from sovereign risks and other forms of security for investments. Incentives to promote investment such as duty drawbacks were seen as useful, but of secondary importance.

(e) Credit policies: It was felt strongly that access to credit, especially for small and medium sized domestic enterprises, has been hindered by high interest rates and restrictive lending policies of the banking sector. There was an urgent need to develop mechanisms for improved access to working capital and export finance for these enterprises.

(f) Promotion of competition: In conjunction with its privatization programmes, the government should promote increased competition in the supply of such support services as transport and handling, especially when it has or had a monopoly in this area. This was seen as useful for reducing costs and improving efficiency.

2. Commodity sector responsibilities

15. The producers/exporters in a commodity sector should be responsible for the organization and financing of any activities which enhance their profits including production and marketing systems, production methods, sales techniques, packaging and technologies.

(a) They should organize themselves through sector boards or exporters' associations that include all producers and exporters regardless of size.

(b) The functions of these boards or associations should include provision of such common services as developing facilities for improving access to credit or providing guarantees for members, collecting, analysing and disseminating production and market information, undertaking research and development activities, improving business ethics, developing sector - wide quality standards to enhance the image of their products, and developing sector-wide skills through training workshops and site visits.

(c) The members of the board or association should decide on how to finance and deliver these common services, such as through assessing membership fees, levies or cesses and deciding on the level and distribution of these assessments.

(d) These boards or associations should be used to represent to the government the interests of the private sector producers/exporters on sector-specific concerns. It was recommended that the government be represented on the directorate of this board or association, that the board or association should be represented on the appropriate government body (sector parastatal or trade promotion organization) and that these two groups be encouraged to work closely together.

3. Joint/mixed responsibilities

16. There are a certain number of policies/tasks affecting a commodity sector which are best undertaken through a partnership between the government and the sector. The division of responsibilities and financing of these will depend on the structure of production (large estates or commercial firms can assume much more responsibility than smallholders) and financial health of the sector. It was recognized that a distinction can also be made between the types of support provided by the government for traditional and non-traditional sectors, as the former are often in a position to provide more of their own services. However, while governments need to be conscious of the support required to diversify commodity exports (e.g. horticulture), they should also help traditional sectors which are economically viable but have been constrained by macroeconomic or political factors in the country.

(a) Physical infrastructure: Sector-specific infrastructure such as storage facilities, irrigation schemes, feeder roads, etc. need to be developed and maintained. When the private sector is involved in providing these facilities, there is a need to minimize the free-rider use of infrastructure, through, for example, user fees.

(b) Research and Development: Research institutes and pilot projects for testing technologies and new production packaging methods were best run as joint ventures between the government and the production sector. The producers should provide some funding and have a say on priority areas for research and governments were encouraged to provide matching funds.

(c) Extension services: The provision of advice on production techniques especially to small scale producers can be organized through ministries of agriculture, parastatals or sector boards/associations, depending on the size and structure of the sector. Usually the provision of these services should be financed by the government.

(d) Provision of inputs: The provision of inputs such as seeds, fertilizers and pesticides, especially to small scale farmers, is often best organized centrally through extension services as well as through private companies. For non-traditional crops, the government may wish to consider whether to provide these on a subsidized basis with a well defined decreasing scale of subsidy.

(e) Information: There are advantages of scale in centralizing the collection and analysis of production, trade and market information which has to be collected from many sources, often at significant costs. Therefore this activity, especially for small and medium-sized enterprises, can be organized as a joint project between the sector and the government, with the sector having an influence on the content of the information collected. Information after analysis should be available to all involved in the sector at a nominal cost (in

order to indicate the usefulness of the material) and the government should assist in the dissemination process (newspapers, radio as well as published material).

(f) Market promotion: The government through its trade promotion organizations should facilitate market promotion activities, such as market surveys, attendance at trade fairs and direct contacts between exporters and importers. These activities should be undertaken at the request of the sector board/association or groupings of small scale sector participants and should involve these participants in the execution of these activities. This does not exclude individual private sector initiatives in this area.

(g) Training: The sector should organize and undertake its own specialized training activities. The government should support these activities through the provision of funds and access to technical expertise.

(h) Marketing structures: There is a need to develop adequate domestic marketing structures such as auctions, open tenders and forward markets, to ensure price transparency and orderly markets. These institutions should respond to the sector's needs and be owned and operated by participants in the sector and be supported by the government through a proper legal framework.

(i) Insurance: When appropriate, consideration should be given to developing an insurance pool for farmers, funded jointly by the growers and the government, to protect growers partially against physical damage to their farms.

4. Institution building

(a) Governments should encourage the development of sector boards/associations through measures such as:

(i) Registration or licensing procedures that include membership of a sector board or association.

(ii) Collection of levies or cesses on behalf of the board or association.

(iii) Providing special institutions for small holders to participate on an even footing in the board or association. These institutions should be run as independent bodies along non-profit commercial lines and can be involved in providing marketing services for the small holders.

(b) Regional cooperation: Governments should facilitate cooperation and exchange of experience, among sectors in the region, in such areas as research, market promotion, marketing institutions (auctions) and transport.

(c) It was agreed that exchanges of experience on commodity sector policies should be continued at both the national and regional levels, involving government and sector participants, in order to generate and monitor actions seen as crucial to the future development of these sectors. Donors were requested to provide adequate finance for this activity.

C. An overview of structural adjustment programmes

17. Many East African countries faced a deteriorating economic situation towards the end of the 1970s. One of the factors accounting for this was the decline in their international terms of trade which arose from the fall in world prices for their major commodity exports. For these highly commodity dependent

countries, this resulted in a severe shortage of foreign exchange needed to purchase capital equipment and other raw materials essential for the development of their economies. Also as a consequence of their significant borrowing from international commercial banks and financial institutions in the 1970s and early 1980s, many East African countries were in debt and, because of their foreign exchange shortages, unable to meet the interest repayments on debt obligations. Furthermore, in many of these countries, the state was heavily involved in the agricultural and manufacturing sectors. In many cases, the State controlled production and marketing of the main commodities through their parastatals, and these also provided support services to producers (supplying credit, seed, fertiliser, equipment, research and development). The legacy of this heavy State intervention in economic activity was that as prices for exports fell, government expenditure increased sharply, as did budget deficits. In many countries the budget deficit reached between 10 and 20 per cent of GDP. The situation was made worse by weak fiscal systems with a narrow tax base that consisted mainly of duties on international trade. This reduced considerably the scope to achieve fiscal balance. Given the background of declining terms of trade, high debt repayment obligations, rising domestic inflation (fiscal expenditure was financed through expansionary monetary policies) and burgeoning government budget deficits, it is not surprising that all six countries in this study agreed to undertake World Bank and/or IMF-sponsored structural adjustments programmes in the early 1980s.

18. The structural adjustment programmes embarked on by the six countries were broadly similar in their aims and objectives. The first stage of adjustment was designed to achieve a rapid stabilisation of macro-economic balances. During that stage, policies included tight monetary and fiscal policies (generally accompanied by ceilings on wages of civil servants and a freeze of government employment), exchange rate adjustment, increases in producer prices of export crops, and cuts in government expenditures including through the reduction of state intervention in economic activities (particularly in the agricultural sector). The subsequent phases of the adjustment put more emphasis on marketing systems and supply-side reforms; import liberalization, completion of consumer price decontrol, complete removal of agricultural input subsidies, privatisation or changing the functions of state enterprises (especially of commodity marketing boards) and public sector reforms, further adjustments in exchange policy and tax and financial sector reforms. Table 1 summarizes the core elements of structural adjustment programmes in each of the countries.

Chapter II

THE EXPERIENCE OF THE TEA SECTORS IN KENYA, MALAWI, UGANDA AND UNITED REPUBLIC OF TANZANIA

19. Tea exports are of significant importance to Kenya, Malawi and Tanzania, accounting respectively for 24, 9 and 8 per cent of exports in 1991.[4] Kenya and Malawi are the third and tenth largest exporters of tea in the world. In Kenya, the quantity of exports increased by 32 per cent between 1986 and 1991, while in Malawi, exports remained constant during the same period. Tanzania is the third largest exporter of tea in Africa with the quantity exported increasing by nearly 60 per cent between 1986 and 1991. In Uganda, exports of tea remained

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[4] For these three countries, the area under cultivation is at present 99,000 ha, 19,000 ha and 19,000 ha respectively.

more or less constant during this period but showed some signs of stronger growth in the early 1990s[5].

20. The following sections present the experience of these countries in liberalizing policies affecting the production and marketing of tea. In the case of Uganda, the policy of the Ministry of Trade and Industry has a direct influence on the tea sector and this is also examined.

A. The tea industry in Kenya[6]

21. Tea is Kenya's leading agricultural export commodity, accounting for over a quarter of total exports. Tea production is labour intensive and accounts for over one million jobs in direct and indirect employment. Production of tea is in the hands of the private sector, either large estates or smallholders. Practically all the tea produced for export and local consumption is sold at weekly auctions in Mombasa.

22. The tea industry has recently undergone a process of liberalization as part of the country's structural adjustment programme, the most important aspect of which affecting the tea sector is the set of new rules and regulations concerning foreign exchange. Since August 1992 all transactions on the Mombasa auction are required to be made in US dollars. This has led to a decline in the number of players involved in tea marketing as some local traders were forced to leave the market because of lack of access to foreign exchange. However, the change in payment system has facilitated faster payments to both exporters and producers. The time lag between physical delivery and payment at different points along the chain has been reduced to 14 days from the time the tea is sold. The new dollartrading system also helped exporters, who no longer have to deal with currency fluctuations and exchange rate risks. Under new exchange procedures, 50 per cent of export earnings can be retained in foreign currency by exporters. In addition, local buyers in the auction are now allowed to open dollar denominated accounts.

23. There are no price controls in the tea market, nor any restrictions regarding the quantity of tea to be sold. It used to be that a quota of packed tea for local consumption was set aside at a price fixed by the government, so that in effect tea growers were subsidizing local consumers. These regulations have been abolished and local packers now have to buy tea on the auction. This move has increased competition in the supply of tea for the local market.

24. In terms of policy, there are several state authorities which play an important role in supervising and regulating the tea industry. The tea industry operates under the Ministry of Agriculture which gives general guidance to the government on tea policy. This policy is implemented mainly through the Tea Board of Kenya, which in turn also advises the government on all policy matters regarding tea. The Board is responsible for regulating the tea industry; it licences tea growing, manufacturing and exports, and is actively involved in the promotion of tea. The Board also carries out research through its technical

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[5] At present, approximately 22,000 ha of land are under cultivation in Uganda, of which half is under rehabilitation.

[6] Based on presentation by Mr. K. Kamatu, General Manager, Kenya Tea Development Authority.

Table 1

Brief summary of structural adjustment programmes

Country	Period	Comments
Ethiopia	1993	Ethiopia started economic reforms in 1989/90. In 1991, the agricultural sector was partially liberalized, resulting in a 7 per cent growth of production. Until 1992, development aid inflows have generally be low; however, since that year, international support has increased, reaching $US 1.2 billion in 1992 and is expected to rise in 1993-94 to $US 1 billion. The major donors are the World Bank, ADB, UNDP and EEC. Moreover, the World Bank is expected to propose the First Structural Adjustment Credit (SACI) of US$ 250 millions to the Ethiopian Government in 1993. The main goals of this credit will be support to economy stabilisation and the private sector. Among others, promotion of reforms affecting exchange rate, finance and wages as well as fiscal imbalance reduction and promotion of price signals and competition is expected.
Kenya	1980-1993	Kenya was one of the first developing countries to receive a structural adjustment loan from the World Bank. The main purposes of the SAL I in 1980 were the re-orientation of its industrialisation strategy and the improvement of its creditworthiness as well as the promotion of non-traditional manufactured products. In 1982, the SAL II central points were the reform of the industry as well as the review of maize marketing in the agricultural sector and changes in farm prices. In 1988, the Adjustment programme supported by IDA and by the IMF (SAF) had the following objectives: reduction of budget deficit, limitation of using non-concessional sources of external finance, boosting the development of manufactured exports, exchange rate adjustment and improvement in incentives to smallholders in the area of input supply and agricultural services. In 1993 the World Bank will grant $US 85 million in aid to support Kenyan's balance of payment reforms, and is expected to provide an additional support of $US 85 million to the educational sector if adjustment reforms take hold.
Malawi	1981-1993	In 1981 Malawi started a structural reform programme to improve its competitiveness in the international market. This programme has been supported by three World Bank Structural Adjustment Loans (SAL), by different IMF programmes such as a three year Extended Fund Facility, a stand-by and a three-year (from 1988-91) Enhanced Structural Adjustment Facility and by two Sectoral Adjustment Credits to the trade, industrial and agricultural markets. From 1981 to 1991, total assistance from the World Bank, IMF and other donors reached $US 650 million. Malawi has followed a policy characterised by a liberal trade and exchange-rate regime. The major purposes of the programme were to increase the prices and thus revenues paid to smallholders for exportable cash crops, to erase subsidies on agricultural inputs, and to increase governmental proceeds and to decontrol consumer prices and devaluate exchange rates.

United Republic of Tanzania	1986-1993	Under IMF and World Bank pressure, the government decided in 1986 to launch a programme to boost the economy. Between 1987 and 1990, both organisations supported the reforms by granting an Structural Adjustment Facility under which Tanzania received SDR 74.90 million and in 1991 the IMF approved an Enhance Structural Adjustment Fac.lity credit of SDR 181.90 million. The main objectives of these programmes were an GDP increase thanks to the agricultural and industrial boost as well as a slow down of inflation. More recently, exports, imports and prices have been liberalized and foreign exchange rates unified and adjusted. In order to reduce the budgetary deficit, the government started to liberalize the parastatal sector with up to 97 parastatal companies to be privatized before the end of 1994.
Uganda	1986-1993	Uganda started to stabilize its economy in 1986 through the adoption of a donor-supported Economic Reform Programme (ERP) which was followed by a Structural Adjustment Programme (SAP) and an Economic Rehabilitation and Development Plan (RDP) in 1987. A new programme was adopted for the 1992-95 period. The 1987 RDP amounted to US$ 1.4 billion out of which US$ 600 million was made available by the IMF and the World Bank. Total external assistance to Uganda, including UNDP assistance, increased from US$ 148 million in 1988 to US$ 638 million in 1989 and US$ 659 in 1990 but decreased in 1991 to US$ 615. The main objective of Uganda's reforms are the rapid liberalization of the economy, the reduction of imports, and the promotion of exports and of investments.
Zimbabwe	1991-1995	Zimbabwe started to implement its first structural adjustment programme only in 1991. In that year, the World Bank approved a $125 million loan and afterwards the International Development Association (IDA) a credit of SDR 45.9 million ($60 million) in support of the programme. Like the other countries its main aim has been the liberalization of trade and the suppression of price and exchange controls. However, the first phase of the country's adjustment programme faced extremely adverse conditions such as the exceptional 1992 drought and some delays occurred during the programme's implementation, eroding investors confidence. A proposed Structural Adjustment Credit SAC II of SDR 88.3 million (US$ 125 million) by the IDA is under discussion. The second phase of economic reforms would support three points: the reinforcement of export promotion, the investment delicensing to make private investment easier and the reformulation of policy in agriculture marketing and prices to further stimulate the private sector.

arm, the Tea Research Foundation of Kenya (TRFK). The main functions of TRFK are to carry out research on the control of pests, tea diseases, improvement of planting material, husbandry, yields and quality. The foundation advises producers directly on the best clone selection to suit the various ecological zones and on how to care for their tea in order to improve production and attain the best quality.

25. Representation on the Board is composed of the government, the Kenya Tea Development Authority (KTDA), the Kenya Tea Growers Association (KTGA), the Nayo Tea Zones Development Corporation (NTZDC)[7], and the East African Tea Trade Association (EATTA). The interaction of these private and state-run organisations greatly facilitates the functioning of the tea industry. There is coordination amongst these institutions in areas such as research and development, trade and market information. Furthermore, there is transparency as the private sector has information (through producer associations) on current and future government policies affecting the tea sector.

26. The KTDA, which was established in 1964, is a State Corporation with the responsibility of managing the smallholder tea sector. The Authority advises smallholders on the best method of tea growing, collects the leaf from the smallholders, processes it and markets the tea on their behalf. It competes directly with the large privately owned tea estates. With offices in all tea growing districts, the Authority is the biggest single tea processor and exporter in Africa. The tea it sells on the auction is presented under the producer's name and so the producer receives directly a price reward for quality. Payment to smallholders is on a regular monthly basis and at the end of each financial year. They are paid the total proceeds from their own tea sales less transportation, processing, handling and marketing costs. While the KTDA represents the interests of the smallholders and is supposed to be a non-profit organization, it works closely with the privately run tea growers association.

27. The KTGA was established by the large scale tea producers in 1931 to promote their common interests in the cultivation and manufacture of tea. Membership in the Association is open to growers who maintain at least 10 hectares of tea. Most estate owners manufacture tea in their own factories while smaller estates and other outgrowers deliver leaf to tea manufacturing factories. The large scale producers are also involved in the fast growing tea packing and blending sub-sector for both the domestic and export markets. Presently the leading packer and distributor of tea in the domestic market, Kenya Tea Packers Limited (KETEPA), is owned jointly by KTDA and KTGA.

28. The tea industry is also supported by the EATTA which brings together tea growers, processors and dealers of tea in Eastern Africa. The objectives of the Association include to ensure the orderly marketing of tea, to foster closer relations within the tea industry, to facilitate the settlement of disputes and to collect and circulate statistical information as may be of assistance to members in the conduct of their business. According to the rules of the Association dealings in tea in Eastern Africa are permitted only between members. It is therefore a requirement that those wishing to trade in tea take membership with the Association.

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[7] This is another State Corporation established in 1985 with the responsibility of managing Government tea projects around the forest zones.

29. It is interesting to note that, while liberalization has affected the marketing of tea in Kenya, the basic structure of the industry has not been touched. The estate sector is in private hands, with its lobby being represented in policy making through the KTGA to the Board. The smallholders are still looked after by the KTDA, but this organization has never had ownership of the teas it sells but rather performs an intermediary function in marketing for a large number of small sellers. Both organizations conduct training and provide market and technical information; they are both involved in the research area.

B. The tea industry in Malawi[8]

30. Tea is the second largest foreign exchange earner in Malawi after tobacco, and about 42,000 persons are employed in this industry. Tea is predominantly grown on large scale private estates which have their own tea processing factories. These estates produce and market all high-value export crops, and have benefitted from specific advantages from the government in comparison to smallholders, including virtually no taxes, cheap land and easy credit. Many years ago, the estate owners formed the Tea and Coffee Association of Malawi, whose aims are to promote the interest of the sector and to provide support to members in research and development, training, and market information.

31. Estate farming is input-intensive with a high application of fertilizer, resulting in high yields[9]. The estates in Malawi have benefitted from one of the most advanced research units for tea in the world. This research foundation is independent of the government and conducts research financed from trust monies, much of which comes from the estates. The private tea sector has thus been able to overcome many constraints to its development and to maintain its competitiveness mainly through its own initiative, including having its own extension service. More recently, in an effort to accomodate changing consumer tastes and increase value added, the tea industry has started producing decaffeinated tea. Furthermore, to increase the value added in black tea production, there are plans to install plant facilities for instant tea.

32. Tea is sold by auction in Limbe or London, or directly to merchants in Malawi or overseas. The future export market strategy for tea is to put more emphasis on direct sales to buyers rather than through auctions.

33. The overall government policy is to increase foreign exchange earnings from both traditional and non-traditional exports. Tea being a traditional export, the government is striving to increase hectarage modestly for smallholders and so also improve the situation of small farmers. In order to achieve this, the Government established in 1974 the Smallholder Tea Authority whose main function is to coordinate the growing and marketing of the tea by smallholder farmers. As a result, production of green leaf tea by smallholder farmers increased significantly. The Smallholder Tea Authority also established the Malawi Tea Factory Company which processes and markets the tea bought from the smallholders.

34. As the tea industry is relatively efficient, it receives few incentives in comparison to non-traditional exports. It does however benefit from several

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[8] Based on presentation by Mr. F. Mbendera, Secretary, Exporters Association of Malawi.

[9] The annual increase of production of 4.5 percent between 1970 and 1984 can largely be attributed to these improved yields.

government export incentives including duty drawback on raw and packaging materials, and the foreign exchange revolving fund. There has been little or no impact of liberalization efforts on the tea sector in Malawi because of its structure, as described above. Decisions still need to be taken, however, on the relative roles of estates and smallholders and the amount of support the government will provide to the second group.

C. The tea industry in United Republic of Tanzania[10]

35. While Tanzania produces only about one per cent of the world's tea production, it is one of the major producers in Africa after Kenya and Malawi. Tea production hit a peak in 1992/93 when about 21,000 tons were recorded. Prior to this period, production levels varied considerably, falling to as low as 13,833,000 kgs in 1977/78. The decline in production was due to a number of factors including shortages of foreign exchange to buy inputs; problems with the transport system on account of shortages of fuel, aging vehicles, non availability of tyres and vehicles spares; shortages of labour; and low prices paid by the government to smallholder green leaf tea producers.

36. Tanzanian tea is sold through the auction system and private direct sales. About 20 per cent of the tea production is consumed locally. Tanzania producers export most of their tea through the Mombasa (Kenya) auction, which is nearer and can absorb the secondary grades of tea which cannot be sold by auction in London. Over 80 per cent of private direct sales are to Pakistan either from Tanzania or through tea traders in Europe. In recent years the role of the Tanzania Tea Authority (TTA) has changed from price setting to being responsible for licensing exports and monitoring sales. Producers, whether public or private, are now free to export their tea without interference.

37. Production started to increase in the late 1980s in response to the government's decision to liberalize its policies which were hindering the development of the sector. The following were among the major changes that have occurred:

(a) Since 1982 all growers are allowed to retain part of their foreign currency earnings to enable them to import inputs and spare parts. With more liberal foreign currency regulations, imports increased, factory efficiencies improved, the transport system improved, packing materials were imported at the right time and there has been a quality improvement of tea, due to the investment of new and more efficient processing machines.

(b) A more attractive investment code was introduced which encouraged foreign investors to open up new areas of tea production and to participate in joint ventures with existing local producers.

(c) Some companies which were not performing well opted to sell off their estates. The new owners have rehabilitated the estates, making full use of the more deregulated production and marketing environment.

(d) The Government has withdrawn from controlling green leaf price for smallholders. This has enabled the TTA to keep prices for smallholders in line with prevailing prices of processed tea.

(e) TTA factories have plans to sell some shares to the farmers in the areas where the tea is grown. Crop production and the quality of tea

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[10] Based on presentation by Ms. C. Vuhahula, Marketing Manager, Tanzania Tea Authority.

produced is expected to increase as the farmers participate fully in running the factories.

(f) The devaluation of the local currency has helped growers to generate more money (in local currency). Now the proceeds of exports together with the liberalized foreign currency retention assist the exporters/importers to plan better their import requirements.

(g) Currently there is one blender/packer in the country (a parastatal company). It is expected that in the near future, producers will be allowed to blend and pack their teas for both local and export markets and this should increase earnings through export of value added products.

38. The industry still faces several constraints to its development. Access to credit for investment is difficult for local private investors. When credit is available, high interest rates and stringent lending conditions often prove to be prohibitive. Transport costs are high; the current shipping charges for export of tea by sea are high compared to those for neighbouring countries. It is cheaper for the Mombasa Auction teas to be transported to Mombasa by trucks rather than by ship[11]. There is a lack of ongoing research (only one small substation is currently active). Decisions are needed on how research should be organized, on how it should be funded, on who should decide priorities, and on whether it would not be better to undertake research in cooperation with Kenya or Malawi.

39. The prospects for the Tanzanian tea industry are promising. The current investment code should continue to make it attractive for both foreign and private investors to participate in joint ventures. In addition, the liberalization measures already undertaken to increase private sector participation should continue to increase the levels of domestic production.

D. The tea industry in Uganda[12]

40. During the 1970s, the tea industry in Uganda lost virtually all its regulatory, infrastructure, technical, managerial and marketing capacity because of the political and economic instability in the country. As a result, tea production declined from 23 thousand tons in 1972 to less than one thousand tons in 1980. However, since 1986 the tea sector has been revitalised on account of political stability, the implementation of liberalization policies and financial assistance from the EC, IFC and local banks for smallholder and estate tea producers. Half of the total area under tea plantation is now being rehabilitated. Tea production has increased at an average annual rate of 26 per cent from 4,658 tons in 1989 to 11,695 tons for 1993. Tea exports, which account for 80 per cent of the total production, have similarly increased, and export earnings have trebled from US$ 3.1 million in 1989 to US$ 9.2 million in 1993.

41. Export marketing of tea was fully liberalized in 1989 when the Uganda Tea Authority lost its 15 year monopoly of marketing and exporting tea. This was followed a year later by the liberalization of foreign exchange regulations. The lack of adequately trained marketing staff and the long absence of Ugandan teas from the international market led producers to concentrate their sales on

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[11] TTA, which is the industry lobby, is responsible for bringing such an issue to the attention of the Government.

[12] Based on presentation by Mrs. M. Mugabi, General Manager, Tea Marketing Board.

the Mombasa auction, which currently accounts for about 45 per cent of sales. However, the long delay, of about 48 days, in remitting tea proceeds from the auction has forced producers to resort to selling their teas to locally-registered firms at cheaper prices, in order to obtain cash. These firms then export the tea either directly or through the auction.

42. The start of the return in 1992 of tea estates owners who had been expelled in 1972, the planned sale of Government tea estates and the privatisation of Uganda Tea Growers Corporation (UTGC) factories to small-holders by 1998 will eventually return all tea production into private hands. The smallholders under UTGC own just under half of the hectares under tea; the remainder of the land area is owned by large estates. With EC financial assistance and subsidized government input supply, UTGC, which has responsibility for smallholder production, has improved its efficiency and productivity.

43. Despite the improved performance of the sector in recent years, it continues to face numerous problems. These have contributed to the general poor quality Uganda tea, a problem that is made worse by high costs of production and transport. One of the most serious barriers is the poorly developed infrastructure. The feeder road network needs urgent rehabilitation and most roads are impassable during the raining season. The supply of electricity is poor and as a result most producers have to use costly generators (which adds to their fuel bill). Transport costs are expensive and put Uganda tea exports at a disadvantage compared to those of its competitors. The general lack of credit within the economy has meant that the factories which were started in the 1930s have been in a neglected state since 1972. It is hoped that the privatisation of former state-owned factories will result in proper investment and rehabilitation of these factories. The complete lack of tea research since 1978 and the collapse of the East African Tea Research Institute has resulted in poor yields which remain as low as 900 kgs of mate tea per hectare vs. 3,000 kgs that was achieved in 1960s. The proposed government/producers body - Uganda Tea Board- has remained only on the books since 1989. This has created a vacuum as there is no proper co-ordination of the industry's activities in areas such as research, promotion, information services and extension and no good lobby facilities.

The role of Ministry of Trade and industry of Uganda in supporting export marketing of commodities[13]

44. Uganda is an agricultural country producing a range of commodities including coffee, cotton, tea, tobacco, cereals and horticultural products for both local consumption and export. A large proportion of this output is produced by the peasant sector. Until recently the government had a marketing monopoly for all major commodities. Now the government has liberalized the trade regime and has established a realistic foreign exchange regime. Trade liberalization has also included the reform of the marketing policies and the removal of parastatal monopolies such as the Lint Marketing Board (cotton), the Coffee Marketing Board and the Produce Marketing Board. Thus, the way is open for local private entrepreneurs, who now constitute a large percentage of the exporters. However, there is a basic lack of knowledge in export marketing as well as of the necessary infrastructure to carry out these activities. Therefore, the

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[13] Based on presentation by Mr. O. Othieno, Commercial Officer, Ministry of Trade and Industry.

government is providing support in the provision of extension and other support services and infrastructure to assist small scale operators.

45. The principal function of the Directorate of Foreign Trade within the Ministry of Trade and Industry is to promote exports and provide assistance and advisory services in the marketing of commodities. The Ministry also issues Export Certificates. The issuing of this certificate has undergone a number of reforms to eliminate delays and so to facilitate trade. For example, it now takes less than a working day for an exporter to be issued with an export certificate after his application is received. The system now requires an applicant to present the following: (1) a valid business certificate of registration from the Registrar of Companies of Ministry of Justice (Uganda); (2) a valid trade licence; (3) a proforma invoice; and (4) any supplementary documents that may be required by the customs authority. There is no limitation placed on quantities, values and the export route to be used and mode of transportation, except for Border Trade permits. The certificate is valid for six months after which it is renewable.

46. The Ministry of Trade and Industry (MTI) has also published "The Exporter's and Importers Guide" which outlines the requirements and procedures involved in export trade and also contains lists of which export certificates may not be granted without supplementary documentation. However, none of the commodities listed above are on this list. The Ministry has set up a quality control organisation (Uganda National Bureau of Standards (UNBS)) to assist exporters with standards required to penetrate international markets. The Ministry aims to diversify into new markets through Trade Agreements and Protocols, such as those that exist with Tanzania, Libyan Arab Jamahiriya, Nigeria, Republic of Korea and India. The Ministry also provides information on world market prices. This information is available at Uganda Export Promotion Council, a special body within the Ministry which has been created to promote exports and to provide advice to the exporters. It is also the focal point for the PTA Computerised Trade Information Network (TINET).

E. Conclusions

47. The experience of the tea sector in the four countries has been markedly different. In both Kenya and Malawi, the tea sector operates under a deregulated framework with tea production and marketing largely in the hands of the private sector. While governments play mainly a supervisory role, the strength of the industry is based on a mutual though competitive partnership between the government and the private sector. In Kenya, smallholders through the KTDA compete with the large tea estates, but collaborate in areas such as quality control and research and development for the mutual benefit of the industry. The fact that both the KTDA and the estate growers association are members of the Tea Board reinforces this cooperation. An important lesson from the experience of the Kenyan tea sector is that the industry has benefited from strong institutional support without the government interfering in the functioning of the market. Though the tea industry in Malawi is liberalized and efficient, there is a clear dichotomy between the large estate and the smallholder sectors. The private large estates are highly competitive, mainly because of their efforts to promote the industry through research and development, training and maintenance of high quality standards. While smallholder production is promoted by the government, these producers do not have the same degree of institutional support.

48. In both Tanzania and Uganda, the Government is undertaking a process of liberalizing the tea sector. United Republic of Tanzania is further along than Uganda in this area and it appears that the tea authority will play a stronger and more effective supervisory role. The country's revised investment code should continue to attract much-needed foreign investment into the sector. In Uganda, institutional support is largely missing and the lack of investment in transport and other infrastructural facilities tends to undermine the Government's liberalization efforts.

49. Two major policy issues arise in this sector. First, what is the most efficient way of organizing and funding research and development and extension activities, and in this context, what are the respective roles of the government and the private sector? Secondly, when the sector has both large private estates and smallholders, how much support should be given to smallholders and what form should this support take, especially in the marketing area? There appears, finally, to be a good basis for reestablishing regional cooperation in tea in such areas as research and marketing, including regional market institutional building based on the Kenyan auction.

Chapter III

THE EXPERIENCE OF THE COTTON SECTORS IN ETHIOPIA, UNITED REPUBLIC OF TANZANIA, ZIMBABWE AND ISRAEL

50. With the exception of Tanzania and, to some extent, Zimbabwe, there are no major cotton exporters in East and Southern Africa. Tanzania is one of the largest exporters of cotton in Africa and in 1991 depended on cotton for a third of its total exports. Between 1986 and 1991, the value of exports tripled, reflecting the strong increase in domestic production. The importance of cotton exports has increased significantly in Malawi and Uganda, reflecting efforts undertaken in both countries to reduce dependency on their traditional exports, coffee in Uganda and tobacco and tea in Malawi. In Malawi the quantity exported more than quadrupled between 1986 and 1991, while in Uganda, exports increased by 60 per cent in the same period. Though exports of cotton are currently negligible in Ethiopia, efforts are being undertaken to promote them.

51. The following section presents the experience of three of these countries in changing policies affecting the production and export marketing of cotton as well as the experience of Israel.

A. The cotton sector in Ethiopia[14]

52. The cotton grown in Ethiopia has traditionally been of very fine quality. Annual production of cotton reached its highest level of about 30,000 tons in 1986/87. Export of cotton had reached 8,000 tons in the early 1980s but ceased in 1985. In recent years production has declined markedly and the country is now a net importer of cotton[15]. Two basic factors, expansion of textile factory capacity coupled with the marked decline of cotton production, have widened

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[14] Based on presentation by Mr. W. Wubeneh, Head, Marketing Service, Ministry of State Farms, Cotton and Tea Development.

[15] The annual industrial demand for lint cotton is now about 42,000 tons but the annual production is barely 20,000 tons.

significantly the gap between national demand and supply. As a result, local textile industries operate at less than full-capacity. The poor performance of the cotton sector can generally be blamed on years of political instability.

53. The government is undertaking efforts to revitalize the cotton sector. Emphasis is being placed on general improvement of cultivation practices in existing production areas, including variety replacement. Because of the long and repetitive usage from the same parent source, the cultivar 1516/70, used since 1974, is said to have degenerated. It is believed that replacing it initially with similar but purer variety would substantially enhance yields. As almost all production is on irrigated land, expansion of rain fed production could also make a contribution. However, it is thought that improvements could best be obtained by increasing irrigated production areas. Ninety thousand hectares of land in six different areas have been identified as very suitable locations for cotton production. Irrigated farm development requires a very high investment and is in most cases beyond the financial capacity of the country. It can thus be done only with international assistance and/or cooperation.

54. The cotton sector in Ethiopia is still very much controlled by the government through the state farm system. This is not likely to change until some basic decisions on allowing private ownership of large areas of farmland are taken.

B. The cotton sector in United Republic of Tanzania[16]

55. There has been a significant liberalization of the cotton sector in Tanzania. The Tanzanian Cotton Marketing Board (TCMB), which used to have a marketing monopoly, was restructured with the re-introduction of co-operative unions in 1984-85 and its activities were changed into that of an agent of co-operative unions in January 1990. It was thus to provide marketing services such as administering export auctions and providing market intelligence. The TCMB was also to be the statutory agent for the marketing of cotton lint on behalf of the cooperative unions and the regulator of cotton marketing. Cotton lint was marketed for both domestic and external markets through periodic tenders held on behalf of the unions. The TCMB also regulated and controlled the quality of lint. Since 1990, the TCMB completely stopped buying and selling cotton.

56. Under the next stage of the proposed reformed marketing system, the TCMB is to be replaced by a body whose sole responsibility would be to regulate the cotton industry, including the design and administration of the procedures for the export marketing of lint. Ownership of cotton ginneries is to be liberalized and owners of ginneries (private sector cooperatives) are automatically to receive licenses to buy, process and market cotton lint and seed domestically and internationally. In August 1993, the government introduced new regulations to allow competition at all levels of crop handling from purchase from farmers to ginning, local sales and export of lint. This latest amendment also allows private participation in all levels of crop handling.

57. Although it would appear that the Tanzanian cotton industry has undergone considerable restructuring over the years, all except the latest changes have primarily been attempts to reform the single channel system, with various

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[16] Based on presentation by Mr. T. Fille, Marketing and Operations Manager, Tanzanian Cotton Marketing Board.

functions shuffled between the Board and the Unions. It is only the latest amendment that has allowed for a multi-channel system and private participation. Therefore starting from next marketing season, i.e June 1994, it is expected that Unions, primary societies, the Board, individuals and private companies will be competing in buying seed cotton from farmers, building ginneries, and exporting lint directly or through agents of their choice. It will be the responsibility of the Board to issue licenses to seed cotton buyers and export permits to lint exporters, to allocate planting seed which each buyer shall set aside for planting purposes and to regulate and control the quality of seed cotton and lint at the processing and marketing levels. It will also collect, refine and disseminate information concerning cotton, promote its use, and advise the government on all matters pertaining to the industry. The Board will also be allowed to purchase, gin and export lint in competition with other agents. In pursuing these responsibilities and in recognition of the fact that most of the Unions lack experience with cotton export marketing, the TCMB is organizing a seminar to acquaint the new cotton buyers and exporters with the requirements of international trade.

58. As a result of government efforts to reduce fiscal expenditure on parastatals as part of its structural adjustment programme, support to the cotton sector has been reduced considerably over the last decade. The lack of financial resources has prevented the rehabilitation of many old and nearly obsolete ginneries. The low level of ginning activity has caused cotton seeds to stay in storage for long periods, therefore reducing the incentives of producers to grow more seed. In addition, the lack of investment in new equipment has meant that the quality of cotton produced by the ginneries has declined significantly[17]. Furthermore the current high indebtedness of many ginneries has sabotaged any attempts at privatisation as private investors are unwilling to take over risky ventures. Also, poorly performing agricultural extension services (extension, credit and research) and a deteriorating physical infrastructure significantly constrain growth in the cotton sector. This situation may effectively put a limit on the scope of greater multi-channel purchase and export of cotton for some time to come.

59. The slow pace of liberalization and the lack of a suitable incentive structure would seem to have led the supply response of the cotton sector to successive devaluations of the shilling to be low in comparison to that of non-traditional products. The poor state and low productivity of ginneries has meant that the cotton sector has been unable to increase production and take advantage of improved competitiveness as a result of devaluation. Furthermore, the lower value of the Tanzanian shilling has made essential raw material inputs, as well as machinery necessary to rehabilitate old ginneries, even more expensive to import. Finally, the slow progress towards liberalization in the cotton sector led to the cessation of an assistance programme which had been financed by the Netherlands for 11 years[18]. The cut of this bilateral help of $100 million per year will amplify the difficulties faced by the cotton industry.

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[17] Both domestic and international textile producers complain about the poor quality of Tanzanian cotton.

[18] Marchés Tropicaux, 2 July 1993.

C. The cotton sector in Zimbabwe[19]

60. Cotton is a major cash crop in Zimbabwe. It is produced by both large estates and smallholder farmers and delivered to the state-owned Cotton Marketing Board (CMB) which was, until recently, the sole purchaser of cotton. The CMB then separates the cotton into seed cotton and cotton lint. The cotton lint is either exported to the European markets or sold to the local market. The local spinners then process it into yarn and finished material for clothing. The cotton seed is sold to the processors who in turn produce oil and cake for the domestic market.

61. The percentage contribution of the smallholder sector to cotton production has increased over the past years. This increase can be attributed to an increase in hectarage rather than yields, which in turn is a result of the relatively better price for cotton and improved marketing infrastructure. The value of cotton lint export has doubled over the past five years from US$144 million in 1984/85 to US$273 million 1991/92. This increase in export value is attributed primarily to devaluation of the Zimbabwean dollar. Although the volume of exports grew to a peak in 1989/90, it declined sharply after this period.

62. The Government plays an important role in promoting the growth of cotton industry through research and extension services, improved marketing infrastructure and better pricing policy. Research has contributed to the release of better hybrids that are high yielding and suitable for the local conditions. In order to facilitate the dissemination of information, the government provides extension services through the department of Agritex.

63. In order to protect domestic production, an import permit and tariff system is used to control imports of cotton products and to protect the domestic textile industry from external competitors. However this situation is being reviewed in the structural adjustment programme[20] and the changes being considered will require significant initiatives from the producers, marketing agencies and processing agencies of cotton if they are to remain in business.

64. The growth of the cotton sector is closely linked to changes in macroeconomic policies, particularly those relating to exchange rates and trade. Any devaluation of the currency will be of benefit to the cotton producers and hence the comparative advantage of the country in the export market. A generalized reduction in domestic demand is expected to affect consumer demand for clothes, thus affecting the textile industry[21]. Also, the producers are likely to face a market-related price which will fluctuate in accordance with

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[19] Based on presentation by Mr. L. Mafurirano, Senior Agricultural Economist, Ministry of Lands, Agricultural and Rural Resettlement.

[20] The prescriptions in the economic structural adjustment programme include:
- reduction in government expenditure and deficit;
- a more market aligned exchange rate;
- the provision of an enabling environment for private sector participation;
- cost recovery on some services that were provided by the government;
- reducing protectionist tendencies.

[21] The recent world recession has reduced the demand for textile products, which has also had an impact on the textile industry.

world market prices. The marketing agencies will have to increase their efficiency to ensure that the product continues to find a market and to protect their marketing margins.

D. National and regional support systems to promote the export of cotton (Israel)[22]

65. The example of Israel is useful in that it consists of a very close partnership between the government and the private sector with no apparent contradictions or inconsistencies seen in this relationship. Cotton is not a traditional crop in Israel: it was introduced into the country in the early 1950s using cotton varieties, cultivation techniques and know-how from the United States. However, further development of the cotton crops was carried out in Israel with adjustments to local requirements and conditions, including the control of pests and diseases. In 1993, an area of 16,000 hectares of cotton was cultivated: 12,000 hectares were of short fibre cotton, 4,000 hectares of the long fibre type. In 1994, the area is expected to increase to 24,000 hectares.

66. Marketing is organized and concentrated in a single channel through The Cotton Production and Marketing Board (CPMB). This board was created voluntarily by the cotton growers without any legal obligation and it is owned by the growers. After the cotton leaves the gin, it belongs to the CPMB, which is also responsible for its storage (the board has its own storage facilities). The Government makes a commitment to cotton growers of a minimum inital price somewhat lower than the world price it expects to be realized[23]. Final adjustment of the payment to cotton growers is made later on the basis of the prices received for all the cotton marketed by CPMB during the season[24]. The CPMB is responsible for negotiating the minimum price for cotton guaranteed by the government and for representing the growers on the National Cotton Committee. In order to promote the sales of cotton and to make the necessary contacts and connections, the CPMB invites potential buyers and observers from textile industries in Europe and the United States to Israel to view cotton production and processing. In such a way, mutual trust and good and efficient commercial relationships are established between the CPMB and potential buyers. While this marketing arrangement does not lead to competition between growers, it has prevented distress sales.

67. Israel has a highly developed system of research and extension for cotton growing. The research done covers basic problems on a national level, as well as specific problems of a regional or sub-regional nature, with research and extension services being well coordinated at both national and regional levels. Research and development projects, which are financed from government funds and from contribution by cotton growers, take into consideration the combined needs of research and extension. The National Cotton Committee, which is composed of

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[22] Based on presentation by Mr. R. Katzir, Specialist on Agroecology and Director, Latin America Affairs, Israeli Ministry of Agriculture.

[23] In 1994 this was 75 US cents per pound of fibre for local cotton, when world prices were around 90 US cents for one pound of long fibre cotton, and 60 US cents for short fibre cotton.

[24] The CPMB has a laboratory for determining the quality of and grading cotton before sale.

researchers, extension specialists and cotton growers, is in charge of distributing the available financial resources between research, development and extension.

68. The National Cotton Production and Marketing Board provides collective insurance to all cotton growers against damages which can result from a natural disaster such as rain, extreme temperatures, storms and flooding. The Ministry of Agriculture, the Ministry of Finance and the farmers contribute to this special insurance fund.

E. Conclusion

69. It is clear from the discussion in this chapter that the implementation of structural adjustment programmes in Ethiopia, Tanzania and Zimbabwe will have profound effects on the performance of their cotton sectors. In the case of Ethiopia and Zimbabwe it is much too early to assess these impacts. However, several observations can be made. The cotton sector in Ethiopia is in considerable disarray as a result of the country's unfavourable political and economic climate. There is little institutional support for farmers in such areas as the provision of credit and extension services. The poor levels of infrastructure and skills within the country are a further burden. The country will require considerable external financial and technical assistance for the cotton sector to develop effectively.

70. The cotton sector in Zimbabwe has performed well in recent years, mainly on account of the devaluation of the exchange rate which increased the competitiveness of the sector. Government assistance through the provision of research and development, extension services and a well organised marketing structure has provided considerable support to the sector. However, the Government has also protected cotton processors by guaranteeing a price and market for its produce as well as through tariff barriers. Under the new structural adjustment programme, the government will remove or reduce these tariff barriers and the industry will need to become more productive and efficient if it is to remain competitive.

71. Liberalization measures have been in place in Tanzania since the mid-1980s. Nevertheless, the implementation rate of policy changes has been slow. The proposed government plans for the sector appear to be a step in the right direction. However, a more conducive macroeconomic environment providing for higher levels of credit and investment, together with increased foreign investment in the form of joint ventures, are needed to stimulate growth in the sector.

72. Though the cotton sector in Israel is at much more advanced stage than that in East Africa, there are obvious lessons to be learnt. The sector has benefited from institutional support at both national and regional levels. Most of the key elements for the strong development of the industry are in place, i.e research and development, quality control, well developed transport and marketing infrastructure. Most of these services are provided by the government. However, they are provided in close cooperation with the private sector in order to respond to the industry's needs. It is interesting to note that all exports are through a single channel controlled by the private sector (CPMB) and supported by various national and regional government associations. Though many African countries lack the skills and financial resources to provide all these sorts of support structures, a start could be made to provide some facilities. Also the

case for a strong partnership with well defined roles between the government and the private sector is well documented by the success of the Israeli cotton sector.

73. While increased competition in the marketing of cotton is visible, and the viability of exporting raw cotton seems clear, there are major problems left in the areas of cotton ginning, processing and textiles. These areas are more difficult to tackle because of the size of investments already made but also the size of investments needed to modernize the factories. The current viability of the local textile production is very questionable, and the real interest of investors, both local and foreign in the sector is not evident.

Chapter IV

THE EXPERIENCE OF THE HORTICULTURAL SECTOR IN ETHIOPIA, KENYA, MALAWI, UNITED REPUBLIC OF TANZANIA, ZIMBABWE AND ISRAEL

74. Most countries in East and Southern Africa have potential for expanding horticultural exports due to their favourable climatic conditions. The development of horticultural exports to date has been one of the visible efforts in these countries to diversify into non-traditional products. Kenya, which grows many horticultural products for both local and export markets, is the largest horticultural exporter in sub-Saharan Africa and the seventh largest world exporter of cut flowers. Horticultural products account for over 10 per cent of that country's total exports. Exports consist mainly of cut flowers, green beans, Asian vegetables, mangoes, avocadoes and passion fruit and these go chiefly to the EU. In the early 1980s, Zimbabwe did not have an important horticultural sector. Over the last few years, exports receipts from this sector rose steadily from Z$4 million in 1985 to a forecasted Z$150 million in 1993. Zimbabwe is now the third largest exporter of horticultural products in sub-Saharan Africa. In both Ethiopia and Tanzania, exports of horticultural products expanded strongly in the late 1980s and early 1990s.

75. This chapter reports on the experience of five East and Southern African countries and Israel in the development of policies supporting the export marketing of horticultural products.

A. The horticultural sector in Ethiopia[25]

76. Despite the recent implementation of the first structural adjustment programme, the economy of Ethiopia remains highly regulated. The production and marketing of the key export crops are controlled by parastatals with little private sector participation. Despite the economic difficulties faced by the country, attempts to diversify the economy have been relatively successful. Since the early 1980s, growth of non-traditional products such as fresh fruits and vegetables and cut flowers has been significant, with an annual average growth rate of about 4.5 per cent.

77. Unlike other countries of the sub-Saharan region, export of horticultural products is undertaken by a State parastatal, the Ethiopian Fruit and Vegetable

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[25] Based on presentation by Mr. Y. Agonafer, Manager, Ethiopian Fruits and Vegetables Marketing Enterprise.

Marketing Enterprise (EFVME).[26] This organization was established in 1990 as a part of the Ministry of State Farms. The EFVME is responsible for all aspects of marketing starting with the collection of the products at farm level. It undertakes quality control, domestic transport and packaging and delivery to the foreign market. The horticultural export sector is part of the state-farm system and as a result receives considerable support from the government in areas such as seed and fertiliser supply and credits.[27] The government has also invested heavily in refrigerated transport (lorries) to facilitate exports. However despite this support, this sector has been unable to realise its full potential. Further infrastructure is required, in particular cold storage facilities at ports and airports, the lack of which leads to deterioration of quality for export. Furthermore, packaging standards for exports are low as a sole domestic supplier produces poor quality materials and, as a result of import licenses and foreign exchange restrictions, it is difficult for the sector to import better quality packaging material. Nevertheless, exports are growing significantly, increasing from 60 to 70 tonnes a year in 1980 to an estimated 4,500 tonnes in 1992/93[28]. It would appear that part of the strong increase in exports of the horticulture sector is a result of a 50 per cent devaluation of the national currency.

78. It is difficult to assess what impact the structural adjustment programme to liberalize production and marketing of the agricultural sector will have on production and marketing of horticultural products. As the sector receives considerable support from the State, the proposed reduction on government expenditure will reduce the level of subsidized credits and inputs available to farmers. Continued growth of the sector will depend on the ability of the private sector to take over former State-controlled activities such as input marketing and supply. This, in turn, will depend on the incentives available to the private sector such as being able to obtain foreign exchange (which is very scarce), softening import licensing procedures, as well as the availability of credit and other essential support services (market information, quality control).

B. The horticultural sector in Kenya[29]

79. The export of horticultural produce has played a major role in Kenya's economic development. In the last 20 years, exports have grown from almost nothing to being the third foreign exchange earner after tea and tourism. This growth has been achieved through a partnership between the government and the domestic and foreign private sectors. Production and marketing are controlled by the private sector with the government playing a supervisory role through the Horticultural Crop Development Association (HCDA).

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[26] There are some small-scale individual farmers who produce for their own consumption or for the local market.

[27] The government has introduced incentives such as tax levies and duties in order to attract more foreign investors into agriculture including horticulture.

[28] Marchés Tropicaux, 21 May 1993.

[29] Based on presentation by Mr. K. Mulwa, Chairman, Fresh Produce Exporters Association of Kenya.

80. Green beans represent the most important fresh produce export. For the last four years Kenya has been exporting over 15,000 tons annually. Most of these beans are grown by small scale farmers, who have attained enviable skills in grading and packing not matched by many other producing countries. The growth of the export of flowers from Kenya has been through the efforts of a few big firms and some very determined small and medium sized farmers. The large companies have invested heavily in cold storage and cooling facilities, grading halls, refrigerated and insulated vehicles and green houses. Most of Kenya's flowers are sold through the Dutch auctions although some of them are sold directly to the importers in these markets who in turn organize distribution.

81. The Government has promoted horticultural exports by allowing private sector investment (through a favourable investment regime)[30] and by completely liberalising the fruit, vegetable and cut flower markets. The government has also played an active role in providing institutional support to producers and exporters. The following summarizes the different functions of various bodies in the horticultural sector. The most important institution is the Horticultural Crops Development Authority (HCDA) which provides technical and marketing information to both exporters and producers as well as production advice to farmers and market intelligence for the sector as a whole. In addition, it undertakes limited marketing activities on behalf of small farmers who have difficulties to enter into this area. It has other assignments such as monitoring, in cooperation with the Central Bank of Kenya, prices and foreign exchange repatriations. The HCDA is also a member of COLEACP, which provides cooperation opportunities between ACP exporters and EEC importers. Another governmental body supporting the horticultural sector is the Kenya External Trade Organisation (KETO). In collaboration with the HCDA, it has developed promotion programmes particularly by initiating foreign contacts with the aim of strengthening horticultural marketing. The Ministry of Agriculture is in charge of pre-export inspection services and delivers phytosanitary certificates and other documentation necessary for the EC market. It is important to stress that the EC quality rules are increasingly strict, particularly since the emergence of supermarkets as dominant importers. It should also be noted that the National Chamber of Commerce is making an effort to reinforce contacts between Kenyan exporters and EC importers and has recently sponsored a mission of horticultural exporters to the main EC markets.

82. The other important institution is the privately run Fresh Produce Exporters Association of Kenya (FPEAK) which represents the interests of producers/exporters and acts as a lobby on their behalf. It has taken over several functions of the HCDA and provides extension services, training, market information and other services to its members. It works closely with the government on all issues relating to the horticultural sector. FPEAK is on the board of the HCDA which in turn is on the board of FPEAK. Also all exporters have to be members of FPEAK and the government helps by collecting its dues and passing them over to the association.

83. Despite cuts in government expenditure as part of structural adjustment programmes, the government continues to provide relatively strong support to this sector. Moreover, the sector has undoubtedly benefitted from successive devaluations which started in 1984. The 80 per cent increase in the volume of

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[30] The government has also participated in several joint ventures with foreign and domestic private sector.

horticultural exports between 1985 and 1988 can partly be attributed to the 28 per cent depreciation in the exchange rate during this period. More recently, the Kenyan shilling has been devalued by 50 per cent in March and May 1993 and this is expected to have a strong positive impact on exports. Since 1992, exports of non-traditional products such as fruits, vegetables and cut flowers have been exempt from the foreign exchange conversion requirements and exporters of these products are now allowed to open foreign exchange retention accounts.

84. Despite the impressive growth of the horticultural sector, some obstacles have slowed down its export performance. One important barrier is the high taxes on aviation fuel (the result of government tax policy), which are considerably higher than in neighbouring countries. This has made it difficult to attract cheaper charter flights to increase cargo capacity which is essential for the further expansion of the horticultural industry. In the late 1980s, the government made efforts to remove this kind of fiscal barrier in response to intense lobbying from the private sector. Nevertheless aviation fuel in Kenya is still among the most expensive in the world[31], with the result that air freight charges in Kenya are very high. For example, air-freight charges range as a percentage of the costs between 15 per cent for short-stem roses and 85 per cent for aubergines. The Kenya air freight handling company (KAH) enjoys a de facto monopoly and its poor performance has been the subject of complaints by FPEAK. FPEAK is also looking at the possibilities of shipping some bulky produce by sea although the rates of sea freighting from Kenya compared with other countries like South Africa are still high.

85. Other restricting factors are the high cost of packaging material. There is only one paper manufacturer in the country and imported packaging materials face high tax and duty[32]. To illustrate the effect of cost of packaging, the price of French beans and asian vegetables cartons have increased from kshs 19 to 26 and from kshs 29 to 42 respectively. The high tax regime affecting the trade sector in Kenya reflects the structural adjustment aims of reducing the budget deficit and achieving fiscal balance.

86. Non-availability of seedlings and planting material is a major concern to the industry. Kenya is not a signatory to the International Convention on Plant Breeders Rights. This has lead to a reluctance by breeders in Europe to sell new varieties to growers in Kenya. FPEAK has lobbied relentlessly for the government to accept the convention and steps towards this are now in an advanced stage. Quality has, however, become a major issue of concern. Non-availability of the right seeds and lack of precooling facilities at production centres have contributed to a decline in the quality of produce. The multiplicity of exporters, although desirable, has the potential to create quality problems if not accompanied by proper training especially in the field of quality standards. Finally, the Maximum Residue Limits (MRLs) for produce exported to the EC poses difficulties for exporters without proper infrastructure and organization. Private producers have requested the government to provide the necessary infrastructure for testing residue levels and also to train extension officers to help the farmers.

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[31] The Government has yielded to the pressure mounted by the exporters through FPEAK and has brought down the price of aviation fuel to $0.95. See Revue des Marchés Tropicaux, 26 February 1993, page 566 and 5 March 1993, page 641.

[32] They at present face an import duty of 45 per cent plus a sales tax of 17 per cent.

87. For 25 years Kenya's horticultural export sector has experienced phenomenal growth with selective assistance from the government and its agencies. The private sector was the major player. While some items have been lost due to high freight rates in the course of this period, the industry is now an important foreign exchange earner. Lack of working capital for small exporters, lack of good seeds and lack of precooling facilities are now hampering the growth of the industry. Competition from other countries and the cost and availability of air cargo space have also contributed to this slowdown. The liberalization policy being implemented by the Government has gone a long way in facilitating the import of inputs badly needed in the industry. The government has now realized the need to introduce incentives into this sector with potential growth to enable the industry to compete effectively in the international markets. FPEAK is asking the government, for example, to find way of containing inflation as this could lead to disinvestment by investors. Approaches are also being made in the field of fiscal policy and export promotion.

C. The horticultural sector in Malawi[33]

88. The development of horticultural crops for export falls within the Government policy "..to expand and diversify export receipts from agricultural produce." In order to achieve this policy, the Government has instituted a number of strategies in the field of research, extension and training, marketing, institutional support and incentives.

89. The horticultural development efforts date back to 1984 when the Government commissioned a pre-feasibility study of the horticultural industry. The study revealed that Malawi has the potential to grow and export horticultural crops particularly vegetables. In 1986, encouraged by the results of the study, the government established a horticultural pilot project near Kamuzu International Airport. The project covered 250 hectares of land with the participation of five farmers who were already farming in the area. The farmers later formed an association called Farmers Horticultural Exporters Association (FHEA). Through the Malawi Export Promotion Council, the association received various kinds of assistance from the International Trade Centre (ITC) and UNDP. The assistance included the funding of marketing programmes, provision of seeds, irrigation equipment, packaging materials, and technical consultancy in production and pre and post harvest handling.

90. During the project life (1986-1991) the farmers grew and exported chilies, french beans, mangetout, asparagus and okra. The performance of the project was generally not impressive on account of a number of problems which were encountered during its implementation, including: (a) lack of financial support: the farmers did not have adequate own funds to purchase production inputs such as seeds, fertilizers and chemicals. Thus when the project came to an end, most of the farmers abandoned their operations; (b) lack of irrigation facilities caused production difficulties during the dry season; (c) lack of cooling facilities: there are three flight days in a week from Malawi to Europe which meant that farmers could export their vegetables only three days in a week. As vegetables usually are harvested daily, those that were not harvested on the non-flight days were overgrown and therefore unacceptable on the market; (d) lack of post-harvest handling facilities, particularly packing sheds and pre-cooling

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[33] Based on presentation by Mr. D. Perekezani, Marketing Officer, Malawi Export Promotion Council.

facilities which resulted in low quality consignments; (e) inadequate extension service: most of the farmers were employed elsewhere and thus they were operating their farms as a hobby; (f) lack of supportive institutions: the FHEA was not organized enough to support the activities of the farmers. Although the association had a chairman and a secretary, it had no office premises, telephone or fax and its officials operated from their homes on a part-time basis.

91. Although the performance of the horticultural pilot project was not impressive, some important lessons can be drawn for the purpose of future development of the industry. First, the project revealed that a successful horticultural project requires basic infrastructure and facilities namely, irrigation equipment, cold rooms, and grading and packing facilities. In order to produce high quality vegetables, there is need for an adequate extension service. In order to achieve sustainable horticultural development, there is a need to establish a supportive institution to co-ordinate the production and marketing of the crops. Also, only committed and commercially oriented farmers should be involved. Furthermore, participating farmers require access to adequate financing to facilitate their production activities. Based on the lessons learnt, the Malawi Export Promotion Council in conjunction with the Ministry of Agriculture is making every effort to revive the project on an expanded level.

D. The horticultural sector in United Republic of Tanzania[34]

92. The horticultural sector in Tanzania is highly unregulated, with the private sector controlling all production and marketing. However, the sector receives very little support from the government in areas such as the provision of credit and inputs, extension services, post harvest handling, quality control and, to a lesser extent, market information. Though the Ministry of Agriculture has staff dealing with horticulture, they lack financial resources and expertise for meeting the requirements of the sector. Like all sectors of the economy, horticulture has been affected by government policies introduced under structural adjustment. The reduction in government expenditure has meant that the maintenance as well as repair and development of key infrastructural facilities such as roads, cold storage at ports and airports and telecommunications has been curtailed. This has seriously hampered the growth of horticultural exports. The lack of post harvest handling and quality control assistance together with insufficient research and development has meant that exports of fresh fruits and vegetables (especially green beans) often suffer from poor quality. The situation is made worse by the poor standards of packaging material which fail to meet international requirements. Perhaps the single biggest barrier to exports is the lack of air freight and storage space available to exporters at the two main airports, Kilimanjaro and Dar-es-Salaam.

93. Nevertheless, it would appear that the horticultural sector has benefited from structural adjustment reforms and particularly from the successive devaluations which resulted in a strong supply response from the private sector. The export revenues from the horticultural sector have increased steadily from US$ 410,000 in 1986 to more than US$ 2,600,000 in 1992. In addition, in 1992, exporters of horticultural products benefitted from a change in foreign exchange controls whereby exporters of non-traditional products were allowed to retain

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[34] Based on presentation by Mr. J. Shomari, Chairman, TANHOPE and Managing Director, Global Vegetables Supplies.

50 per cent of their foreign exchange receipts in their own accounts. Recent reforms to the investment code have attracted a number of foreign joint ventures into the horticultural sector.

94. The private sector established TANHOPE to represent its interests. To date the association has a total of 50 active members comprising both growers and exporters. The objectives of TANHOPE include the regulation, supervision, promotion and coordination of trade in horticultural products in Tanzania so as to increase the capacity to produce high quality and reliable quantities of these products for export and for sale on the domestic market. TANHOPE plans to embark on a six year programme of development by seeking assistance from Tanzania Chambers of Commerce, Industry and Agriculture. In order to achieve its objectives, TANHOPE will require financial and material technical assistance from different sources. Under the prevailing situation, individual members have found it difficult to secure loans for implementing their projects. Communication between TANHOPE and financial institutions like the Cooperative and Rural Development Bank have shown that loans will be made available only after TANHOPE has prepared feasibility studies and when the banks will be able to deal directly with TANHOPE rather than an individual producer.

E. The horticultural sector in Zimbabwe[35]

95. The production of horticulture is divided between the small-scale and large-scale sectors. The small-scale sector produces mainly for the local market and subsistence requirements. The large-scale commercial sector produces for both the local and export markets. Horticultural exports have been a major growth area of Zimbabwean export trade in the 1980s, with the countries of the EC being the dominant destination. Exports increased from $US 3.1 million in 1984/85 to $US 57 million in 1990/91 (mainly cut flowers). In just 10 years, the country has grown to be the fifth largest exporter of cut flowers in the world. Most of the flowers are sold on the Dutch auction floors. The export marketing of horticultural exports is relatively efficient as reflected by the low rejection rate of products on the export markets. The farmers export either directly or through agents. The current trend is towards the use of agents or group marketing, with the latter marketing arrangement resulting in farmers obtaining better prices for their products.

96. The current structural adjustment programme has encouraged more people to engage in the marketing of horticultural products. This influx of traders has helped to reduce the post harvest losses on the domestic market. However, there is still room for improvement in this area. It is expected that the development of more agro-industries will help to reduce the post harvest losses and increase the viability of the horticulture industry.

97. The successful development of exports is attributed to the fact that Zimbabwe produces most of its flowers during the off season in Europe. The main tools used by government in facilitating the development of the sector included: Export Promotion Programme (EPP 1987-1990), the Capital Goods Facility (1988-1990), the new Horticultural Credit Facility (1991 to date) and the Export Retention Scheme (1991 to date). All these schemes aim at alleviating the shortage of foreign currency for essential inputs for production in the sector.

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[35] Based on presentation by Mr. L. Mafurirano, Senior Agricultural Economist, Ministry of Lands, Agricultural and Rural Resettlement.

It would appear that exports have benefited from the significant devaluation of the Zimbabwean dollar and to a lesser extent from the introduction of the retention scheme which allows horticultural exporters to retain up to 7.5 per cent of their export earnings in foreign currency.

98. The quality of exports is high and it would appear that most firms have the technical capacity to implement stringent quality control standards. Production and marketing is dominated by the private sector with strong foreign investment interest. The increase in exports has been facilitated by the fact that the country's agricultural sector has an efficient structure of agricultural service groups in research and development, land planning and development, finance and marketing. As with other agricultural sectors, the horticultural sector benefits considerably from credits provided by the Agricultural Finance Corporation. Furthermore infrastructure facilities such as cold storage and roads and irrigation networks are well developed as are air freight services to international markets (though these are costly). However, the sector faces several constraints that hamper its growth including drought conditions, lack of an efficient internal transport system and the high cost of credit. Many of these constraints will need to be tackled in order to achieve long-term balanced growth.

F. The role of the Government in supporting a horticultural export industry (Israel)[36]

99. In an effort to become largely self-sufficient in food production, the Israeli Government invested heavily in developing infrastructure to serve the agricultural sector and developed centralized policies controlling the production and marketing of agricultural products. This centralized system also applied to horticultural exports. Initially, in the 1960s and 1970s, Israel's "off-season" agricultural exports (mostly horticultural products) to Europe and other Northern Hemisphere markets were very successful. However, with changes in demand and the increase in competition from new "off-season" suppliers in the late 1970s and 1980s, Israel's horticultural exports and market shares began to decline. Its centralized marketing system proved to be inflexible and slow to react to market signals, leading to escalating costs and shrinking profits.

100. In response, Israel has made some changes in its basic marketing system and there are now some differences in structure and export performance between the major horticultural sub-sectors (citrus and non-citrus fruits, vegetables and cut-flowers). However, the exports of most fruits, vegetables and flowers are still restricted to a single channel and a broad liberalization of the system has yet to take place. Agrexco, the government agricultural export company established in the 1960's still has a monopoly to export nearly all non-citrus fruits and vegetables. Agrexco sells through overseas branch offices and warehouses, managed by Israeli representatives and controlled by company headquarters in Tel-Aviv. Most sales are made to "panels" of wholesale customers, as well as directly to large retail chains. Growers are paid their proportionate shares of the pooled revenues, after the company's costs are deduced. Agrexco has invested heavily in logistical infrastructure, developing packing houses and port facilities in Israel and air, sea and land transportation to distant markets. Even if Agrexco eventually loses its export monopoly, it

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[36] Based on presentation by Mr. A. Malter, Market Researcher and Agricultural Marketing Advisor, Israeli Ministry of Agriculture.

is likely to continue performing logistical functions for other companies, as it does today in the case of cut flowers and ornamental plants.

101. One area in which a nominal change in export structure has occurred recently is citrus. Until two years ago, all citrus exports were handled by the Citrus Marketing Board of Israel (CMBI). Citrus was the dominant sector in Israeli horticulture and exports reached over 900,000 tons a year by the late 1970s. But after the 1980s when exports declined steadily to less than 300,000 tons, pressure to change the system became insurmountable. Under the new system, the CMBI closed its overseas branch offices and facilities and no longer sells the fruits. Citrus export sales are now handled by the packing companies who formerly supplied the CMBI. These companies' relations with the growers are generally the same as before the policy change. The only "new" citrus exporting company is Agrexco, which was allowed to begin selling citrus, even though the other citrus exporters were not allowed to sell Agrexco's leading products such as avocados. The CMBI still exists, though in a reduced form with a smaller role. The CMBI remains the coordinating institution for the citrus industry. It still owns the "Jaffa" brand name and manages its promotion to the trade and to consumers.

102. The cut flower export sub-sector has a different institutional arrangement from that of other horticultural products. It has developed into the most successful export branch in Israeli agriculture. Despite the rapid development of competing "off-season" suppliers, Israel maintains its position as the leading non-European cut flower supplier to the European market. With the support of its highly developed research and extension infrastructure, Israel also remains a leading innovator in the market, constantly introducing new products and developing new cultivation techniques and technologies for existing products. Like fruits and vegetables, the cut flowers sector had a very centralized production and marketing system. Growers were bound by growing area quotas for each crop and the main export channel was Agrexco (also under the "Carmel" brand name). Unlike fruits and vegetables, however, some growers were allowed to sell their flowers directly in the European (mostly Dutch) auctions. Every year since then, more growers have shifted from Agrexco to supplying the auctions and now about 75 per cent of Israel's cut flowers are exported via the auctions versus about 25 per cent through Agrexco.

103. In the auctions, Israeli flowers retain the identity of the individual grower, each of whom is responsible for his own sorting, grading and packing and receives his own price (minus the transport costs and sales commissions). In this way, each grower is responsible for his own reputation with the auction buyers and must promote and manage his image accordingly. Growers are often in direct contact on a daily basis with the auctions where their flowers are sold, including the receipt of exact price information and quality remarks for their sales. Overseas transport of the flowers and contact with the auction management, including the transfer of payments, is handled by the Flower Board of Israel. This system allows growers to receive largely undistorted signals from the market and to respond accordingly. It is also a very efficient system whereby the average grower receives about 55 to 65 per cent of the auction sales price.

104. Besides handling the contacts with the European auctions, the Flower Board performs other essential functions for the industry. The board imports plant material and new varieties for growers, coordinated crop trials, has a breeders' rights department to organize the payment of royalties for registered varieties,

organizes crop insurance and represents the industry. It also manages crop-specific research funds together with the Commercial Cut Flower Growers' Association.

105. The Market Research Department in Israel's Ministry of Agriculture, established in 1982, is the government market monitoring service for the fresh horticultural export industry. The main tasks of the department are to gather and analyze market data, organize market information and disseminate it to decision-makers and to the public. This is carried out by the various functional groups in the department: market researchers, information centre, publications and administration. The department aims to monitor market developments in terms of Israel's export performance, the growth of competitors, shifts in demand and consumers' preferences and locating marketing opportunities and/or threats. This information is collected in a variety of ways including through published market reports and surveys and subscriptions to trade statistics and computer data bases, and creating and maintaining contacts with market information sources (auctions, importers, wholesalers, retailers and trade organizations). The department disseminates this information to the industry and the general public through a variety of information "products". Market research has helped product developers focus their efforts on crops with better market prospects, provided production economists with more realistic prices for feasibility studies and given decision-makers (from individual growers to sector managers) a better understanding of market directions and their own market position.

G. Conclusions

106. In formulating policies to encourage the development and expansion of horticultural export sectors, governments appear to have a choice among a broad range of models and policy instruments, which entail lesser or greater degrees of government involvement in the production and marketing of fruits, vegetables and flowers and require decisions about whether support services should provided by the public or private sectors. This in a sector where such decisions are often easier to take because of the non-traditional nature of the exports and so the lack of vested interests in existing structures. Also, the local private sector entrepreneurs involved are usually highly motivated and energetic - and vigorous in presenting their problems to government.

107. The obvious success story in Africa in the export of horticultural products is Kenya, which, however, faces problems in coping with the rapid growth of the sector. As mentioned earlier, the growth of horticulture in Kenya has been due to a strong partnership between the government and the private sector. The roles of each are well defined with the private sector controlling production and marketing and the government providing institutional support. During the early stages of horticultural sector development, limited and selective government assistance was more than enough to facilitate its growth. However, with rapid expansion, government institutional support in such areas as the provision of infrastructure, quality control and research and development has been inadequate. Some of the government macroeconomic policies such as exchange rate devaluations have led to sharp increases in exports while tax policies have generally been unfavourable. The success of the Kenyan horticultural sector is encouraging and offers considerable insight into the conditions required for development of horticultural exports. Nevertheless, it is important to stress that the Kenyan example also illustrates the constraints to growth that can arise from slow adaptation of government policy to changing market conditions.

108. Of the other East and Southern African countries, the Zimbabwean horticultural sector has been the most successful and continues to demonstrate strong potential. Once again strong institutional government support in the provision of infrastructure, research and development and supply of credit has been a main factor contributing to its growth. While horticulture offers considerable potential in Ethiopia, Malawi and Tanzania, development has been constrained by the lack of local financial resources and government support in key areas such as infrastructure development, quality control, market information and research and development. A more appropriate partnership between the government and the private sector is needed to expand horticultural production and exports in these countries.

BOX I

The importance of post harvest handling and packaging in the horticultural sector*

It is generally acknowledged that one key to successful exporting is the matching of the quality of exported products to the standards and the requirements of customers in target markets. This quality is achievable only through, first, design and manufacture of a product to the required quality levels and, secondly, adequately handling and packaging it for export to ensure that the customer receives it in the same condition. Competition in horticultural trade is strong, and to be successful exporters must use proper packaging and handling techniques to assure that their produce reaches the market in top-quality condition. Many developing countries that supply fresh produce are located far from the key markets, which makes effective handling and packaging particularly important as the perishables pass through the long and often complex distribution chain.

Fruits and vegetables for export must be of top quality if profits are to be made. Producers and exporters need to understand that the type or quality (size, maturity, colour and do on) of produce that may be satisfactory for their local market is not necessarily acceptable in export markets. The needs and requirements of the consumer in the foreign market must be satisfied. It is also important for exporters to obtain information on the environmental standards required for packaging material in export markets.

** Based on presentation by Mr. Soltan, ITC Adviser on post harvest handling.*

109. The success of the horticultural industry in Israel is based largely on strong support of the government to the private sector from production to export marketing. This is not to say that African countries should copy the Israeli model, but it does demonstrate some important elements needed for the successful development of horticultural exports.

110. One interesting feature of the successful development of horticultral exports is its synergy with the development of a thriving tourist industry - the latter provides a natural solution to air cargo space that is otherwise not evident. Also, the need for strict quality control to meet increasingly stringent requirements in developed-country markets puts considerable pressure on the sector and the government to develop functioning systems - or lose the market.